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## **Organised Labour, Dualisation and Labour Market Reform:**

### **Korean Trade Union Strategies in Economic and Social Crisis**

**Timo Fleckenstein & Soohyun Christine Lee**

#### **Abstract:**

Labour markets across industrialised countries are under considerable pressure with governments implementing deregulating reforms in particular at the margins of the labour market, whereas regular workers have often seen very little decline in employment protection. Employers have been pushing hard for labour market deregulation, and it is therefore easy to see a government-business alliance at the heart of these developments. But where are trade unions in this process of labour market deregulation and dualisation? Insider/outsider as well as producer coalition approaches portray organised labour as a structurally conservative force that prioritises the interests of labour market insiders, whilst sacrificing the interests of outsiders. Rather than protecting the working class, unions are seen as being 'complicit' in labour market dualisation that leaves an ever greater number of workers vulnerable. Our examination of the Korean case, though commonly perceived as an example of unions pursuing particularistic interests, does not comply with this image, but shows greater union inclusiveness in the face of socio-economic and socio-political challenges. Understanding Korean trade union strategies, we identify the critical importance of union identities shifting towards social movement unionism, in addition to the perceived imperative to re-vitalise the movement in order to remain a meaningful social force.

**Key Words:** Trade unions, labour market reform, dualisation, industrial relations, South Korea.

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## **Organised Labour, Dualisation and Labour Market Reform:**

### **Korean Trade Union Strategies in Economic and Social Crisis**

Labour markets across industrialised countries are under considerable pressure with governments implementing deregulating reforms. The greatest deregulation can be observed at the margins of the labour market where the employment of atypical workers has become much easier, whereas regular workers have often seen very little decline in their employment protection (Emmenegger et al. 2012; Fleckenstein and Lee 2017). Unsurprisingly, employers have been pushing hard for labour market deregulation, as strict employment protection constrains business discretion undermining their ability to adjust employment levels to the business cycle. It is thus easy to see a government-business alliance at the heart of labour market deregulation driving labour market dualisation; that is the increased polarisation between labour market insiders and outsiders.

But where are trade unions in this process of labour market deregulation and dualisation? Challenging the conventional wisdom of organised labour (in an alliance with left parties) pursuing the interests of workers (Korpi 1983; Stephens 1979), the literature increasingly portrays trade unions as structurally conservative forces that prioritise the interests of labour market insiders (the core membership of trade unions), whilst sacrificing the interests of labour market outsiders. In other words, organised labour is seen as readily accepting deregulation at the periphery of the labour market and greater insecurity for marginal groups in order to protect insiders. Rather than protecting the working class, trade unions are 'complicit' in labour market dualisation that leaves an ever greater number of workers in highly precarious situations (Hassel 2014; Palier and Thelen 2010; Rueda 2007).

Our examination of the Korean case, though commonly perceived as an example of trade unions pursuing particularistic interests (Kim and Lim 2000; Yang 2006), does not correspond with the depiction of insider/outsider and producer coalition theories. In exchange for consenting to labour market deregulation including the 'sacrifice' of insider rights, Korean unions achieved improved social protection, most notably for labour market outsiders (though still rather selective and modest social protection by international standards). In contrast to greater inclusiveness in social protection as facilitated by labour confederations, enterprise unions (especially, large ones) continue to prioritise insider interests at the workplace where outsider 'exploitation' is seen as stabilising the privileged position of insiders. Recently, however, we find some greater inclusiveness towards outsiders at the workplace as well, albeit without challenging the primacy of insiders. In awareness of the limits of enterprise unionism, union leaders have started pushing for a shift to industry unions for greater solidarity.

In short, contrary to the image of conservative forces, we observe that Korean trade unions displayed a capacity to develop new strategies that not only aim at confronting the secular process of dualisation but also show increasing inclusiveness towards labour market outsiders. In the East Asian financial crisis of 1997 and subsequent dualisation and rising social inequality, the democratic trade union movement's identity as a social movement was critical for addressing Korean organised labour's historically narrow focus on insider interests. The economic and social crisis allowed *progressive* union leaders to make their long-standing commitment to greater social solidarity a priority. In addition, more *conservative* forces in organised labour increasingly recognised the limits of previous industrial strategies and the imperative to revitalise the movement in order to remain a meaningful social force, not only in the face of declining membership but also increasing public pressure. Yet, having said this,

greater inclusiveness towards outsiders was limited by the institutional structure of Korean trade unions (that is, the predominance of enterprise unions) and hostile employers, which aggressively pursue dualisation for cost reasons.

The article is structured as follows: We first review different theoretical perspectives on trade unions strategies and organised labour's capacity to overcome historically established industrial and political strategies, before introducing the Korean labour market and social protection regime prior to democratisation in the late 1980s. In the third section, it is shown that unions, complying with insider/outsider theory, first prioritised the interests of labour market insiders in the democratic transition, whilst the following section demonstrates that trade unions, in the East Asian financial crisis (which is widely associated with labour market deregulation), started to display greater inclusiveness by pushing for better social protection for outsiders. In the aftermath of labour market deregulation, irregular employment and social inequality increased significantly; and we thus discuss trade unions' responses to this dualisation of the Korean labour market, including union strategies towards better representing irregular workers in the workplace, as well as better representing them in public policy. Empirically, the article draws upon trade union and Tripartite Commission documents, in addition to 15 in-depth interviews with trade unionists from peak organisations, industrial unions and labour organisations representing irregular workers, and with academic members of the Tripartite Commission.

Considering that Korean organised labour is commonly viewed as being rather particularistic, Korean unions might be considered a critical case for challenging insider/outsider and producer coalition theories (cf. Eckstein 1977; Gerring 2004). Also, the examination of the Korean case yields important insights into union agency in labour market and social welfare politics, as Korean unions, unlike their counterparts in the region, have

developed some significant impact on labour market and welfare reforms in economic crisis – challenging predominant ‘top-down’ approaches in East Asian political economy research (Deyo 2012). Put differently, in difficult times (when many might expect little room for *progressive* politics), unions can make a difference, as the Korean case exemplifies. This is not to argue that the social problems and challenges of dualisation have been successfully dealt with (certainly not), but that unions have the capacity to develop *inclusive strategies* that aim at social progress *for all*.

### **Can Trade Unions Change: Caught in the Middle?**

Calling into question the traditional power resources approach that sees the interests of working people well represented by trade unions and *their* social-democratic parties building comprehensive social *and* employment protection (Korpi 1983; Stephens 1979), insider/outsider theory, as most prominently represented by Rueda (2007), assumes that insiders actually prioritise employment protection in order to maintain their insider status, whereas they see little benefits in unemployment protection and active labour market policy. Not only does unemployment protection primarily benefit labour market outsiders with their much greater risk of unemployment, it also requires greater social insurance contribution and/or tax from insiders – effectively reducing their net incomes. As far as training policies improving the employability of outsiders are concerned, these are seen as increasing competition for insiders, thereby putting downward pressure on their wages. Insider/outsider theory therefore sees the interests of these two groups in conflict, and assumes that trade unions, as well as social-democratic parties, readily sacrifice the interests of outsiders in order to protect those of insiders, their core constituency. In a more recent contribution, Emmenegger (2014) suggests that, despite not having a genuine preference for exposing

outsiders to greater insecurity, trade unions are prepared to agree to deregulation at the periphery of the labour market in order to protect their organisational interests (e.g. continued involvement in public policy-making). Although this approach is, somewhat confusingly, branded as ‘power resources’ thesis, it is essentially no more than a modification of insider/outsider theory.

The assumed readiness of trade unions to expose poorly organised outsiders to greater employment insecurity leaves them open to ‘producer coalitions’ with employers. In particular, trade unions in manufacturing industries with strong export orientation are considered to benefit from the deregulation of atypical employment and associated labour market dualisation, making *their* companies more competitive and thus making their jobs safer, though at the expense of marginal groups in the labour market. In other words, trade unions are seen as being ‘complicit’ with employers and at the heart of increasing labour market polarisation and rising social inequality. Admittedly, different preferences of trade unions in the service sector are acknowledged, but these unions are not seen as having the political clout of their counterparts in manufacturing industries (Carlin and Soskice 2008; Hassel 2014; Palier and Thelen 2010; Thelen 2014).

The insider/outsider model and the related producer coalition approach, displaying strong affinities with Varieties of Capitalism theory (Hall and Soskice 2001), are obviously built on rational-choice assumptions. A more sociological literature, however, emphasises (historical) union identities in order to understand trade union strategies. Hyman (2001) distinguishes between three (ideal-typical) trade union identities. Firstly, in business unionism, trade unions reduce their role to the representation of somewhat narrow occupational interests – and pursue no ‘ultimate ends’ as labour market actors rather than wider social or political actors. This identity has also been described ‘pure-and-simple’ unionism and could

be seen as corresponding with rational-choice assumptions in insider/outsider and producer coalition approaches (that is, manufacturing unions making 'deals' with employers at the expense of outsiders). Secondly, by contrast, it is rather difficult to see unions with class identity to enter this sort of coalition with employers. Instead, organised labour strives for representing the interests of the entire working class and, in a more confrontational manner, business is seen as the 'enemy' – with union identity formed around a fundamental opposition to employers. Lastly, unions as a broader social movement reject simple class antagonism, and instead they perceive a broader role as "vehicle for social integration" (ibid, 2). Here, we, of course, see a rather political trade union identity in the pursuit of social and economic justice that requires action beyond the workplace. Unlike the ideal-typical class union, social movement unionism is more open to other actors in civil society, allowing for more comprehensive social and political coalitions for social progress. It is worth noting that social movement unionism is often associated with democratisation movements (Adler and Webster 1995; Hirschsohn 1998; Lee 2007; Suh 2009).

Further insight into trade union strategies is offered by the revitalisation literature (Frege and Kelly 2003; Turner 2005). The starting point is that unions face increasing pressure to respond to changes in the socio-economic and socio-political environments. Critically, we observe a secular trend of declining union membership and diminishing union influence in the workplace – both are typically associated with labour market changes and the latter also often with globalisation. In addition, unions are under political pressure with their legitimacy challenged, especially when perceived as representing an ever smaller set of labour market insiders. Whilst insider/outsider and producer coalition theories have a narrow rational-choice approach to union behaviour (that is, the protection of insider interests at the expense of outsiders) and essentially perceive organised labour as being defensive (especially, with



regard to employer strategies), the revitalisation literature ascribes *strategic capacity* to unions, assuming that they have “meaningful proactive choices beyond adaptation and subordination” (Turner 2005, 390). Moving beyond common assumptions that behaviours are largely determined by institutional and external constraints, Frege and Kelly (2003) emphasise framing processes in the understanding of trade union strategies – and here, also drawing attention to the role of national union leaders as critical agency. Thus, what is a challenge to unions, or put differently a ‘problem,’ is not predetermined but depends on framing processes; and this framing is closely linked to union identities. For instance, growing insider/outsider differences might not be perceived as a problem in business unionism, whereas unions with class and civil society identities can be expected to show greater concerns about outsiders.

### **Labour Market and Social Protection Regime of the Developmental State**

Prior to Korea’s democratisation, the country’s authoritarian state repressed trade unions, as disciplined low-cost labour was considered imperative for rapid industrialisation. The export-oriented industrialisation project of the so-called developmental state used low prices to break into world markets, and the government promoted ‘national champions’ (large business conglomerates typically run and controlled by an owner family, the so-called *chaebols*) that could compete internationally. However, instead of outlawing trade unions, the authoritarian military regime permitted enterprise unions, which were required to affiliate with the government-sanctioned Federation of Korean Trade Unions (FKTU). Importantly, fragmented enterprise unions, often collaborating with employers, were thought to prevent the emergence of a class conscious amongst workers, which could have challenged the authoritarian government. Needless to say that unions were not allowed to engage in any political action (Deyo 1987; Koo 2001; Kwon and O'Donnell 1999). In other

words, the promoted business unionism restricted to narrow workplace issues was a means of regime stabilisation, in addition to providing the institutional underpinnings for insider-focussed strategies in the aftermath of democratisation, as discussed in the following section.

Facilitating the development of large business conglomerates, the state provided preferential treatment to selective companies, such as government subsidies and special low-interest loans. In exchange for its critical support, government effectively enforced a no-lay-off policies at large workplaces, and expected big employers to provide considerable company welfare (such as retirement payments, subsidised housing loans and education allowances for children) to prevent workers from calling for public social policies. The compromise between the state and business allowed core workers (notably, male standard workers in large firms) enjoying high levels of job security and generous company welfare (Song 2014). This, however, created a dual labour market structure with well protected insiders and much more vulnerable workers at the margins of the labour market. The core/periphery distinction could also be observed in social protection. The state provided only very limited social welfare (primarily health care and occupational accident insurance) for workers in key industries which were considered vital for the industrialisation project, in addition to civil servants and the military whose loyalty was imperative for the stability of the undemocratic regime. Importantly, the state did not provide any unemployment protection, which was considered a burden on the economy. Those out of work were instead expected to rely on family, in accordance with traditional Confucian values (Goodman and Peng 1996; Kwon 1997).

In short, social and employment protection, as well as enterprise welfare, only benefited a limited number of workers in core industries, whereas the majority of workers in small- and medium-sized enterprises (SMEs) was poorly protected. Intriguingly, despite the highly dualised structure of the labour market and social protection that had long been a

feature of Korea, the country had been characterised by relatively modest social inequality, as the government's wage guidelines limited wage differentials between workers in large companies and SMEs; and remarkable economic growth provided sufficient employment opportunities to avoid any significant unemployment (Park 2010; Peng and Wong 2010; Song 1991).

### **Protecting Insiders: Trade Unions and Democratisation**

Whilst organised labour was severely repressed during the authoritarian regime, unions used their new strength in democratic Korea for achieving wage increases and enterprise welfare in excess of the government's wage guidelines. In the democratic transition of the late 1980s and early 1990s (with the state no longer having the capacity of suppress industrial action), unions in *chaebol* workplaces in particular were remarkably successful in improving the pay and working conditions of their members. As an alternative to FKTU, the Korean Confederation of Trade Unions (KCTU) emerged as a competing force for workers' interest representation in the Great Labour Struggle. Displaying greater militancy, KCTU rejected the more business-friendly and conciliatory approach of FKTU, which was somewhat tainted by its cooperation with the previous military regime. Critically, not only were progressive union leaders associated with KCTU, in stark contrast to FKTU, fighting for workers' interest in the workplace but also were typically deeply involved in the democratisation movement and strived for economic and social reforms. We therefore find KCTU best characterised as social movement unionism (Gray 2008; Koo 2001; Kwon 2015; Suh 2009), providing the nucleus for the observed greater inclusiveness of Korean organised labour in the East Asian financial crisis and subsequent labour market dualisation.

With wage increases exceeding improvements in productivity, employers, especially in export-oriented industries, experienced significant pressure on their price competitiveness, and in fact claimed that “wage increases unprecedented in the world in the last ten years” had undermined the competitiveness of Korean industries, particularly if compared to the close competitors in China, Taiwan, Hong-Kong, Singapore and Japan (Korea Employers Federation 1996, 16; see also Korea Employers Federation 1992). Coping with rising labour costs of insiders, large employers started to downscale their internal labour markets and made more extensive use of outsourcing and subcontracting to reduce costs. In SMEs with much weaker unions, wage increases were relatively modest, and therefore the wage gap between workers of large enterprises and those of SMEs widened considerably after democratisation. The relative wages (basic salary plus cash bonus) of SME workers, measured against those of large-enterprise workers set at 100 percent, dropped from 77 percent in 1985 to 65 percent in 1990 (Ministry of Employment and Labour 1991). We thus observe a rise of labour market inequality and greater dualism (Peng 2012; Shin 2010) as a result of changing employer strategies.

In the environment of rising labour costs, employers, displaying greater political agency, increased their pressure on the right-wing government of Kim Young-Sam (1993-98) to deregulate the labour market – not only to make it easier to dismiss regular workers for managerial reasons but also to make it easier to use irregular workers. Apparently, business started to withdraw from the previous compromise of the developmental state and proactively mobilised for neo-liberal reform (including the calling into question of de-facto lifetime employment among *chaebol* employees) (Fleckenstein and Lee 2017). In awareness of the new strength of unions and their militancy, the government offered the introduction of unemployment protection in exchange for labour market deregulation. The coverage of

the proposed unemployment insurance was quite selective, excluding labour market outsiders who were employed in small firms (with 30 or less workers) and those whose employment was atypical (Ministry of Labor 2005). This political exchange was rejected by organised labour, for which “unemployment protection was not a priority” (Interview No. 12), and consenting to labour market deregulation compromising the employment security of their members was inconceivable -- in fact, member unions “did not even allow us [peak associations] to talk about it” (Interview No. 1; see also Interview No. 8). After failed negotiations, the government resorted to unilateral action and legislated labour market deregulation. Both union confederations, which were bitter rivals, called out together a general strike, which brought the country to a standstill for a month. In an unprecedented manner, the government had to postpone the implementation of labour market reform, opening up the possibility of policy reversal by the next government (Koo 2000; Lee 2011b).

In this early stage of democratisation, we find organised labour, with large company unions in the ‘driving seat,’ prioritising employment protection, wage increases and enterprise welfare for insiders, whereas the progressive KCTU leadership had too little clout and institutional capacity to facilitate more inclusive policies. The mainstream of organised labour did not present any meaningful interest in social policy, but believed that their interests could be best advanced in the industrial relations arena. Among competing theories, this episode corresponds with the insider/outsider model but not the producer coalition approach because of unions’ confrontational and militant strategies in the workplace.

### **The East Asian Financial Crisis: Labour Market Deregulation and Protecting Outsiders**

The scene changed dramatically with the East Asian financial crisis of 1997, which brought a significant increase in the unemployment rate from 2 to 8.5 percent and major bankruptcies

across the economy (including *chaebols*, which were previously considered safe havens of employment) (Kong 2000). The newly elected centre-left president Kim Dae-Jung (1998-2003), who had previously fiercely rejected labour market deregulation, saw no alternative to labour market reform. Not only considerable pressure from the International Monetary Fund but also large-scale foreign capital flight made deregulation appear as an imperative, as the rigidity of the labour market was widely considered to make it difficult, if not impossible, to restructure failing Korean companies (Haggard, Lim, and Kim 2003). As a means to achieve consensual labour market reforms in this extremely difficult economic and political situation, Kim Dae-Jung put much emphasis on negotiation in the Tripartite Commission, through which the government formally involved organised business and labour; and this put the leadership of FKTU and KCTU in a stronger and more prominent position as compared to the early stage of democratisation and the Great Labour Struggle, when large enterprise unions dominated the movement. In other words, the government's strategy of tripartite concertation strengthened the agency of national confederations. Critically, in the Commission, unions, which had categorically rejected labour market deregulation in the past, made a radical policy U-turn. The leadership of both labour confederations made strategic choices, and was prepared to accept reduced employment protection for insiders and the deregulation of fixed-term and temporary agency employment in exchange for better social protection for labour market outsiders, in addition for improved labour rights (Interview Nos. 8, 13).

Subsequent legislation not only made the individual and collective dismissal of workers much easier (as reflected in the OECD Employment Protection Index dropping from 3.04 to 2.37), it also eased the use of fixed-term workers (where we observe a drop from 3.13 to 2.13 in the corresponding OECD Employment Protection Legislation Index) (OECD.Stat 2016). Great controversy attracted the use of temporary agency work. To limit the use of

dispatched workers (which were feared to undermine regular employment), unions successfully insisted on a so-called 'positive list' system, which allowed the use of agency workers in listed occupations only but otherwise prohibited it. Unsurprisingly, employers strongly pushed for a 'negative list' system, which would have allowed them a wider use of dispatched workers (Tripartite Commission 1998a; 1998b; see also Interview Nos. 1, 13).

Attempts to minimise labour market deregulation might not come with much surprise, but it is rather remarkable, challenging insider/outsider theory, that trade unions made improving social protection for outsiders a priority. During the concertation at the Commission, the two labour confederations demanded that the rather selective unemployment insurance scheme be extended to small firms and irregular workers. In particular, KCTU, in correspondence with their identity as a movement for social and economic progress for all, took the lead in promoting outsider rights with a more specific and comprehensive agenda across almost all areas of social policy. They strongly called for a radical relaxation of the contribution requirement of unemployment benefits, so that all the unemployed could receive benefits; including those whose short employment record would have otherwise disqualified them (notably, non-standard workers). Furthermore, KCTU demanded that all the other social insurance schemes (health, occupational accident and pensions) be extended to atypical workers, in addition to pressing for a comprehensive social protection system that provided sufficient income security for all citizens (KCTU 1998). More specifically, the latter was further developed into a proposal, together with civil society organisations, for the expansion of public assistance to labour market outsiders who had been disqualified under the old scheme as long as they were deemed fit to work (Moon 1999). In the domain of active labour market policy (which was historically very poorly developed in Korea), KCTU also called for a substantial improvement of training programmes for the

unemployed. The union criticised that training programmes had been geared towards employees of large enterprises and that training for the unemployed was very insufficient. Considering the meagre generosity of unemployment benefit (namely, strict eligibility criteria and short benefit duration), it was argued that training schemes should be put in place to provide income security for labour market outsiders who either were not eligible for unemployment benefits or exhausted them (KCTU 1998; see also Interview No. 8). Following the lead of KCTU, FK TU also promoted social protection for labour market outsiders. Most notably, they demanded the expansion of unemployment insurance towards atypical workers (FK TU 1998), which was a profound change from their initial position. They had previously argued for the exclusion of irregular workers (especially, part-time and temporary workers) from the unemployment insurance scheme, as the inclusion of these was thought to undermine the 'fiscal health' of the insurance fund (FK TU 1989; see also Interview No. 12). They also called for better social protection and training schemes for outsiders, but their proposals were rather vague, unlike the more specific demands put forward by KCTU (FK TU 1998). Yet, both confederations demanded an increase of the government welfare budget by 30 percent (ibid; KCTU 1998).

Whilst the progressive core of KCTU presented a long-standing commitment to greater social solidarity, for the understanding of the U-turn of wider parts of organised labour, large-scale bankruptcies during the financial crisis were critical. In fact, progressive labour activists used the financial crisis as an opportunity to promote their more inclusive agenda in the face of far-reaching changes in Korean employment practices. So, union leaders (unlike many enterprise unions) increasingly accepted the 'new reality' of the end of the de-facto lifetime employment practice; and, more generally, they moved away from the idea of social progress for workers primarily through improved pay and working conditions in the workplace. The



Korean economy displayed an extremely export-oriented growth model, which was sensitive to labour costs. Before the crisis, large companies, in addition to sub-contracting to SMEs in Korea, had started to relocate production to more price-competitive countries nearby (especially, to China after it opened up its economy for foreign investments in 1992). For this reason, the militant union strategies that produced remarkable wage increases and enterprise welfare in early democratic transition were not expected to be equally successful in the future – “in the wake of the crisis, KCTU tried to shift their emphasis from wage increases at firm level to public welfare policies” (Interview No. 9). The changing environment was perceived as making public social welfare an increasingly important source for improving living standards of workers throughout their life course. In other words, the ‘exit option’ of employers in the ‘era’ of globalisation shifted power resources towards business (Fleckenstein and Lee 2017), and unions’ recognition of the limits to progress in the industrial relations arena drew attention towards previously neglected public social policies (Interview Nos. 2, 9).

In addition to the socio-economic pressure from the East Asian financial crisis and globalisation more generally, Korean unions saw themselves confronted with an increasingly critical public. Organised labour, because of their active involvement in the democratisation movement, had been generally considered as a positive force in the democratic transition, but unions became to be associated with self-serving behaviour to the benefit of a small group of regular workers in large companies while the growing number of irregular workers was effectively ignored. Among union leaders, this public pressure produced a sense of an existential crisis of the Korean labour movement, which had seen a significant drop in union membership during the 1990s. In this situation, they felt an imperative to ‘reinvent’ the labour movement to regain political legitimacy and organisational strength. “To address the public

criticism of self-serving behaviour, the representation of labour market outsiders was considered critical” (Interview No. 2) by labour leaders, and accordingly labour confederations pressed hard for improved unemployment protection – beyond the readiness of the centre-left government (see also Interview Nos. 5, 6, 10).

Although this episode (that is, unions promoting improved social protection for outsiders in exchange for reduced employment protection for insiders) presents quite clearly a challenge to conventional insider/outsider theory, it might be read in terms of prioritising organisational interests over member interests – labour rights in exchange for employment protection, as the compromise at the Tripartite Commission included the promise of improved labour rights, including the permission to set up works councils for civil servants, the full legalisation of political activities of trade unions and the legalisation of teachers unions (Tripartite Commission 1998b). However, this interpretation, along the lines of the modified insider/outsider model, fails to grasp the full dynamics of Korean labour market and social protection reform. Most importantly, the approach assumes that trade unions would only (reluctantly though) sacrifice the interests of outsiders but, in any case, defend the interests of insiders. Obviously, the trade union consent to compromising insider rights in exchange for better social protection for outsiders cannot be captured by this alternative approach. Also, though the recognition of teachers unions was commonly thought to be particularly important to KCTU, it is nonetheless difficult to make this key for KCTU’s acceptance of labour market deregulation. Studies drawing on qualitative evidence support the argument that the KCTU leadership saw the crisis as an opportunity to exchange greater labour market flexibility for an expansion of social welfare to the benefit of the wider population in correspondence with their social movement identity (Chang 2009, Neary 2000).

Instead of relying on any insider/outsider model (conventional or modified) assuming clear-cut membership and/or organisational interests driving the pursuit of insider interests, unions need to be understood as organisations that have the ability to respond proactively to changes in their socio-economic and socio-political environment; and here the East Asian financial crisis served as a critical trigger for re-thinking not only policy but also the current *and* future strategic capacity of unions. Besides the key issue of the perceived functional feasibility of the old system of de-facto lifetime employment and the limits to achieving wage increases and improvements in enterprise welfare as in the years prior to the financial crisis, unions apparently responded to political pressure from outside their organisations, and the notion of ‘reinventing’ trade unions points to the revitalisation rationale of union strategies. In this context, it is critical to highlight the organisational identity of union leaders. Especially the KCTU leadership, with its links to civil society organisations in the democratisation movement, considered itself as part of a social movement with a wider political and social agenda. In fact, the ‘struggle for social reform’ was considered a key dimension of the democratic union movement; and KCTU explicitly rejected FKTU’s historical, narrow business unionism of collaboration with employers, solely for gains in the workplace. Having said that, whilst still displaying a more pragmatic approach than KCTU, FKTU (without the legacy of social movement unionism) presented here in principle the same policy positions as KCTU (Interview Nos. 4, 5, 6, 9, 10). This change in FKTU’s policy position from the late 1980s, as discussed above, is significant – also because FKTU is generally considered more conservative and favouring selective social protection (Wong 2004; Gray 2008). Yet, in addition to a political climate in which the conditions of irregular workers became a major issue that could not be ignored easily, “increased competition [for members] between the two labour confederations” (Interview No. 4) can be seen as pushing FKTU towards the left (though, in

practice, maintaining a more conciliatory approach and greater readiness for compromise in correspondence with their historical business unionism). Thus, despite lacking the legacy of social movement unionism, FKTU experienced considerable pressure for the revision of long-established positions (Interview Nos. 4, 10, 11); and, whilst not disappearing, we observe a diminishing *inter-union cleavage* as far as the two labour confederations are concerned.

At the same time, the concessions made in the Tripartite Commission created *intra-union cleavages* -- a serious schism between confederations and *their* enterprise unions (especially, powerful *chaebol* unions). The issue of social protection for outsiders did not attract much controversy, but the acceptance of reduced employment protection for insiders sparked fierce conflict within the labour movement. This was particularly true for KCTU, where the leadership faced a challenge from large enterprise unions. Eventually, a more 'radical' leadership was installed, which led to KCTU's formal withdrawal from the Tripartite Commission. Nevertheless, KCTU, due to their greater ability to mobilise large-scale strikes and rallies than the FKTU, continued to play a key role in concertation on labour market reform and championed better social protection and labour rights (Interview Nos. 1, 8, 10, 11). Although the change in KCTU leadership might not have produced much substantive change, it manifested that large enterprise unions were not prepared to give up the prioritisation of insider interests. Labour confederations were not strong enough to instil a wider notion of social solidarity. Lee and Frenkel (2004) note that many shop stewards lack a sense of solidarity beyond their membership and evidence from our interviews also echo such views as labour activists lament that "standard workers lack solidarity with non-standard workers" (Interview No. 14; see also Interview No. 15). This was a considerable problem for KCTU, which organises some of the most militant enterprise unions prioritising insider interests. Hence, paradoxically, the more inclusive and socially progressive KCTU leadership,

grounded in their organisational identity, saw itself confronted with rather narrow-minded enterprise unions which might have rejected FKTU's business-friendly approach but still prioritised gains at the workplace level. In other words, KCTU's member unions were often somewhat reluctant to support their leadership's wider agendas and political activism (see also Lee 2011b).

Unlike the observations in the early stages of democratisation, we find trade unions, pushed by the leadership in confederations, displaying the capacity to develop new strategies in response to changes in their socio-economic and socio-political environment. In particular, the KCTU leadership, rooted in their identity as a social movement, can be considered an agenda-setter for social policy reform. Progressive union leaders used the economic and social crisis as an opportunity to promote their more inclusive ideas within the movement, which more broadly increasingly arrived at the conclusion of the exhaustion of previous union strategies. Yet, it needs to be acknowledged that the social policy U-turn was constrained by the institutional structures of Korean industrial relations. Pressure 'from below,' namely opposition from some enterprise unions in large workplaces (complying with insider/outsider theory), prevented a more comprehensive change in preferences and behaviours.

### **In the Aftermath of Deregulation (I): Representing Irregular Workers in the Workplace**

Labour market deregulation had huge impact on the Korean labour market. The unemployment rate recovered fairly swiftly to the pre-crisis level, but we observe an acceleration of dualisation with a huge increase in irregular employment, a widening wage gap and an associated rise in social inequality (Song 2014; Shin 2010). After labour market deregulation, the number of irregular workers, for instance, increased rather quickly by around 1.3 million (from 5.7 million in 1996 to 7.0 million in 2000), whereas regular

employment decreased by 1.1 million (from 7.5 to 6.4 million) (Statistics Korea 2016). In principle, unions could be seen as having two basic strategic options in response to dualisation. First, in correspondence with insider/outsider theory, *insider* unions can seek (implicit or explicit) producer coalitions with employers. For the sake of competitiveness of their companies, they accept the use of atypical workers at the margins as long as this secures their own jobs. Alternatively, unions, in recognition that shrinking internal labour markets undermine their organisational capacity, can pursue *revitalisation* strategies; that is proactively opening up their organisations to outsiders.

In the face of the social crisis that was associated with deregulation and dualisation, both confederations and industry unions, building on the paradigm shift during the East Asian financial crisis, showed increasing awareness of the importance of social policy for progress in the living conditions of workers. However, unions continued to struggle with the narrow interests of many regular workers who did not have, for instance, much interest in unemployment protection as long as they considered their jobs safe. In other words, the earlier identified schism between peak organisations and enterprise unions persisted. Having said that, in the aftermath of the financial crisis, increased employment insecurity also affected labour market insiders. Unprecedented levels of job insecurity (for both insiders and outsiders) absorbed enormous union resources in the workplace, making it more difficult to maintain momentum for promoting the broader social reform agenda; but it also opened up reflections in some enterprise unions with respect to their approach towards atypical employment in their companies. In any case, in these difficult circumstances, peak organisations did not manage to mobilise sufficient organisational resources to pursue their social reform agenda in a more meaningful manner (Interview Nos. 2, 6, 7, 9).

Instead, responding to the observed far-reaching changes in the labour market (that is, dualisation as well as increased job insecurity for many insiders), unions re-focussed on industrial relations but also made significant efforts to strengthen labour market regulation in the face of an excessive use of irregular workers. To some extent, though, these were viewed differently within organised labour; and again the dividing line can be found between company unions, on the one hand, and national confederations and industrial unions, on the other hand, as discussed before. Many enterprise unions continued to look at atypical employment rather favourably. Not only did 'cheap labour' make their companies more competitive, irregular workers were also considered "buffers" (Interview Nos. 2 and 14) – in difficult times, they are dismissed first and thus absorbed shocks so that regular workers could keep their jobs (see also Interview Nos. 4 and 10). By contrast, the two labour confederations and industrial unions increasingly perceived high levels of irregular employment not only as a social problem but also as a "serious crisis for the labour movement" (Interview No. 15) – reinforcing the earlier perceived imperative of revitalisation. Besides the core belief that unions ought to protect both insiders and outsiders, the shrinking of internal labour markets as a result of dualisation also raised "the question of the organisational strength and survival of unions as a meaningful social force" (Interview No. 2) with the vast majority of union members coming from shrinking internal labour markets. In other words, the decline of standard employment eroded the conventional power base of organised labour, threatening their capacity to remain as a relevant movement. In fact, some might argue unions had already entered a stage where the issue had become *regaining* the status of a meaningful social force. Furthermore, the widening gap between standard and non-standards workers was seen as "a barrier to achieving standard workers' demands for better wages and working conditions" (Interview No. 5), if irregular workers were available so much more cheaply. In

this context, union leaders considered the mobilisation and recruitment of atypical workers beyond their core membership imperative; not only for normative claims to represent the entire working class but also as a matter of ‘survival’ (Interview Nos. 4, 2, 5, 6, 15).

Recognising the limits of the enterprise unions and decentralised collective bargaining system for both union members and unorganised workers in the aftermath of the East Asian financial crisis, union leaders, including some leaders of enterprise unions, started pushing more seriously for industrial unions in the early 2000s – these had actually been a long-term goal of the democratic labour movement. Apparently, enterprise unions started to respond to increasing pressure in the workplace, as particularistic strategies had become ever more difficult. Thus, institutional reform addressing the inherent deficiencies of the Korean industrial relations system became an organisational priority. KCTU (with about 70 percent of their members) had been more successful than FKTU (with about 35 percent of their members) in centralising their membership in industrial unions. Yet, progress towards (meaningful) sectoral collective bargaining was limited; not only by employer opposition but also by some significant reluctance by enterprise unions in many *chaebol* workplaces. Thus, with weak organisational capacity of labour confederations and little coordination between sectoral and enterprise levels, collective bargaining at the workplace level remained dominant, and enterprise unions (especially in large workplaces), as in social protection, continued to show limited interest in representing the interest of non-standard workers, which were the first to be dismissed in difficult times. Hence, despite some progress with industrial unions, outsiders remained poorly represented in many workplaces, as unions struggled to incorporate workers at the periphery of the labour markets into their organisations. Responding to the union representation gap, irregular workers, often struggling to join enterprise unions, started to organise separate unions for better representation of their interests. We observed an



increase of new unions that do not belong to either FKTU or KCTU, and that cover about 20 percent of all unionised workers (Kwon 2015; Lee 2011b; Suh 2007).

The limited representation of outsiders in organised labour means that irregular workers have greatly relied on social movement organisations outside their workplace for interest representation, and we find a rising public awareness for the hardship of labour market outsiders (Shin 2013). Also, as signs of growing desperation, labour market outsiders (as in fact insiders in the face of weakening unions) increasingly resort to very extreme forms of protest outside the industrial relations regime, such as so-called ‘sky protests’ on cranes, chimneys and radio towers, to gain public and media attention for their cause, hoping this would put external pressure on their employers – in times of declining conventional labour disputes (Lee 2015).

For the understanding of the difficulties in organising and representing atypical workers, the metalworking sector and especially its automobile industry present interesting cases, because metalworking is the stronghold of KCTU as well as the home of many large *chaebol* unions where a strong prioritisation of insider interests can be found (including Hyundai Motors’ and Kia Motors’ labour unions, which are often considered typical unions in the sector). Although irregular workers in manufacturing, with their increasing integration in core production functions, have in principle considerable potential to disrupt production (i.e. the potential to develop industrial strength), new interest representation through separate unions failed to develop momentum. Not only is the organisation of irregular workers undermined by the instability of their employment, but also by “the great hostility from employers” (Interview No. 6), which typically refused to accept these new unions as negotiation partners. This leaves non-standard workers, which commonly hope for conversion into regular employment, incredibly vulnerable, as militancy in the workplace

might damage their chances of becoming insiders. For this reason, many outsiders (despite having little trust in enterprise unions) still prefer interest representation by established insider unions, which have often become somewhat more sympathetic towards the salary demands of their colleagues at the margins of the labour market. And indeed, in the face of the ever growing size of non-standard employment after the East Asian economic crisis and pressure from union leaders, enterprise unions in the metalworking sector have started to show some interest in representing irregular workers; and have started to negotiate on behalf of irregular workers who are not their members, as they pressed management to contain the use of irregular workers. This greater inclusiveness in the workplace, however, is still constrained by insiders' core interest in secure employment. Insiders are not prepared to give up on the subordination of their non-standard colleagues in workplace practice, and expect these to absorb fluctuations in labour demand. Thus, enterprise unions do not show much support for the conversion of non-standard workers into regular workers (Lee and Frenkel 2004; Lee 2011a; see also Interview No. 6).

The limits to inclusiveness is also reflected in many enterprise unions' persistent reluctance to accept irregular workers as their members, as demanded not only by irregular workers but also the Korean Metal Workers Union (a KCTU member union) to enhance the strength of organised labour and to better represent irregular workers. Labour market insiders seem aware that this greater inclusiveness might compromise their employment conditions, especially as this might make it more difficult to dismiss non-standard colleagues. However, strong pressure from the union leadership on company unions "has started to make some difference" (Interview No. 6), and the leadership's genuine strong commitment to the rights of non-standard workers is well documented, for instance, by the union's expulsion of the enterprise union of Hyundai Heavy Industry (the world's largest shipbuilding company

with some 20,000 unionised workers in Korea) for their abusive behaviour towards non-standard workers. More recently, however, company unions in the shipbuilding industry, where massive restructuring put pressure on the job security of insiders, show greater support for the organising of non-standard workers (Interview No. 6). As before, we observe that enterprise unions become more responsive to pressure from the leadership when the interests of the core are threatened as well, especially when employers appear unwilling to enter protective producer coalitions at the expense of those at the margins of the labour market.

Economic crisis as major driver for the transformation of enterprise unions, in addition to pressure from union leadership, is also confirmed when looking at the banking sector, where we find FKTU as the dominant union confederation (including the representation of workers in the so-called 'Big Five'; namely Nonghyup, Kookmin, Shinham, Woori and Hana). The East Asian financial crisis resulted in the laying off of some 50,000 workers, and the majority of these positions were filled with non-standard workers who had to accept not only little job security but also much poorer pay and benefit packages. The massive increase in non-standard workers was perceived as a threat to organised labour; not only by FKTU but also by company unions, which conceded the necessity to recruit irregular workers and to promote an industry union (that is, the Korean Financial Industry Union) in order to remain an organisation that had the capacity to challenge management. It was explicitly acknowledged that one "cannot carry on to fight capital as company unions" (Interview No. 7), but required strategic coordination at the industry level.

With the limited room for progress in the political arena (especially, after the political right returned to power in 2008 with greater hostility towards labour), industrial relations remained the focal point for social progress. In particular, KCTU's commitment to greater

solidarity between labour market insiders and outsiders is reflected in changes in the union's wage policy that demands significant improvements in the minimum wage and the lump-sum wage increases for all workers at the expense of conventional percentage-point increases. This new 'solidarity wage' policy, coming from the union's leadership and put in place since 2013, was explicitly justified with the objective "to close the wage gap between standard and non-standard workers" (Interview No. 3; and KCTU 2016); and it hence represents, in a core business of unions, a fundamental challenge to the conventional assumption that organised labour prioritises the interests of labour market insiders.

In summary, in the aftermath of labour market deregulation, we observe some important improvements in the representation of outsiders in the workplace with enterprise unions responding not only to pressure from union leaders but also to the rise in irregular employment threatening the previously secure position of insiders. Dualisation increasingly affects insiders as well, and these develop a sense of crisis too (in the face of successive hollowing out of the core, and a deterioration of pay and benefits for insiders). Having said that, whilst these developments might undermine producer coalitions, in the face of ever more aggressive employer strategies, and make enterprise unions reconsider their strategies, insider/outsider cleavages remain and the institutional structure of Korean industrial relations continues to hinder greater inclusiveness where company unions have the capacity to resist the pressure from union leadership. In any case, the presented evidence makes it difficult to challenge union leaders' genuine commitment to the improvement of the working and living conditions of irregular workers.

## **In the Aftermath of Deregulation (II): Representing Irregular Workers in Public Policy**

Growing public concerns about the massive increase in irregular employment and the gap between labour market insiders and outsiders made dualisation and associated social inequality an important political issue (Shin 2010; Song 2014). We observed the emergence of a broad 'Alliance for Non-Standard Workers' consisting of 26 civil society organisations including both labour confederations. The formation of this social movement, which grew to more than 100 organisations over time, reflects a public sentiment that considers the widespread use of non-standard workers and their poor conditions a major social problem. In October 2000, the Alliance submitted a petition to the National Assembly, calling for the limitation of the reasons allowing irregular employment and calling for the 'equal pay for equal work' principle as key demands to improve the living and working conditions of atypical workers (Alliance for Non-Standard Workers 2000).

Unions elaborated these positions in the Tripartite Commission, which formed a sub-commission to address the problem of irregular employment (Tripartite Commission 2003; Interview Nos. 2, 4, 10; see also Lee and Eun 2009 for further details on Tripartite Commission and the legislative process). Despite being very keen to introduce new legislation regulating non-standard employment, the centre-left Roh Moo-Hyun government (2003-8), adopting an employer-friendly position, categorically rejected the demand of limiting the reasons for the use of irregular workers. Although there was no fundamental difference in the two labour confederations' principle positions, the FKTU was prepared, in line with their historically more 'pragmatic' approach and unlike the KCTU, for a compromise (most notably, legislation that limits the maximum duration of fixed-term employment rather than limits the reasons permitting such employment), when it became clear that legislators considered union demands unrealistic. Thus, FKTU arrived at the conclusion that "inadequate legislation was better than no legislation" (Interview No. 4), and the government offered to limit fixed-term

employment to three years. Towards the end of the legislative process, the People's Solidarity for Participatory Democracy, a leading civil society organisation and a key force in the Alliance for Non-Standard Workers, gave up its fundamental opposition and implicitly supported a compromise, since this was considered "the only option to achieve any legislation" (Interview No. 11). This triggered KCTU to propose a one-year limit, though showing no sign of compromising on their fundamental position to limit the reasons for fixed-term employment (see also Interview Nos. 9, 10, 14). Because of the continued strong opposition from KCTU, the Tripartite Commission failed to produce a compromise. However, still keen on introducing legislation, the government offered more concessions to organised labour and proposed a two-year limit on fixed-term employment instead of the initial proposal of three years, in addition to maintaining the positive list for temporary agency work (rather than the earlier proposal of a negative list, which was opposed by unions). Also, the government accepted the non-discrimination principle for irregular workers, instead of the initial government proposal to allow 'rational' discrimination, which was fiercely rejected by unions. After six years of negotiation, the non-standard employment legislation passed in 2006, with support from the major opposition parties and implicit approval from KCTU.

Shortly, after the implementation of the legislation, the new right-wing Lee Myung-Bak government (2008-13), entering office with a comprehensive deregulation agenda, sought to make the use of irregular workers easier (e.g. allowing four years of fixed-term employment), but the government met fierce opposition from unions and civil society groups, as the following right-wing Park Geun-Hye government (2013-17) pressed for further labour market deregulation. Whilst unions and civil society organisations were able to block attempts by these governments to deregulate the labour market, at the same time (in this political environment) they were obviously not in a position to achieve any better protection

of irregular workers with the Lee and Park governments taking business-friendly positions (Lee 2016; Lee and Eun 2009). It should be noted however that their prevention of further deregulation (especially, the relaxation of temporary agency employment) suggests that organised labour has developed into a de-facto veto player in labour market reform, even during the rule of the political right with little meaningful access to political decision-makers (cf. Tsebelis 1995 on veto player theory).

## Conclusions

The presented evidence from the Korean case challenges insider/outsider and producer coalition theories with their narrow approach to trade union preferences and strategies. Unions have the ability to overcome the representation of narrow insider interests; and rather than being 'complicit' in dualisation and rising social inequality, the Korean case suggests that trade unions' preference formation is a far more complex process and that unions have the capacity to act *strategically* in response to changes in their socio-economic and socio-political environment.

We have shown that KCTU's identity as a social movement (that is, striving for social justice and progress for all) was critical when challenging the representation of narrow insider interests in the East Asian financial crisis; and KCTU leaders, in the economic and social crisis, became an agenda-setter for better social protection and representation of outsiders. Both KCTU and FKTU actually arrived at the conclusion that the old strategy of social progress through workplace level negotiations (that is, better wages and enterprise welfare) had become increasingly difficult under conditions of globalisation and declining union strength at the company level. For this reason, strategically, *public* social policies gained more importance to improve the lives of not only labour market outsiders but also insiders.

Furthermore, KCTU and FKTU agreed that the secular process of shrinking internal labour markets (traditionally the main pool for union members) and the corresponding decline in union membership raised the issue of organisational capacity for a meaningful representation of workers' interests. Thus, greater inclusiveness towards irregular workers was most certainly also seen as a revitalisation strategy to remain a capable social force, which was furthermore challenged by a public perception that unions prioritised insiders whereas ignoring the hardship of the growing number of outsiders. In this environment, union leaders consented to labour market deregulation for both outsiders and insiders (which was believed could not be stopped anyway) dependent on better unemployment protection for outsiders – considerably beyond the readiness of the centre-left Kim Dae-Jung government. In this very difficult situation, social protection for outsiders was prioritised when the government had to make concessions for labour market deregulation.

Interestingly, although FKTU did not share KCTU's social movement identity, it made a policy U-turn for a better representation of irregular workers in response to the discussed changes in the political and socio-economic environments. In the past, greater social protection for irregular workers was rejected on the grounds of the 'fiscal health' of social insurance programmes, which might be seen as being perfectly compatible with business unionism. In the face of growing public criticism and competition with KCTU in particular, this position was no longer feasible. Yet, strategic differences between the two movements remained with FKTU being much more prepared to compromise with the government. This one might want to relate the legacy of more *pragmatic* business unionism. Also, comparing the levels of commitment to better social protection of outsiders, one finds that KCTU, with its deep roots in social movement unionism, displayed much greater activism for social policy expansion, including the collaboration with civil society organisations and including the



preparation of much more specific policy proposals, whereas FKTU often remained somewhat vague. Hence, despite similar if not the same pressures, important differences, grounded in different (historical) union identities, can be observed between KCTU and FKTU.

Despite much greater inclusiveness of organised labour, we certainly cannot ignore that significant problems in the representation of outsiders remain; and the pay and working conditions of many irregular workers are still extraordinarily precarious, as social inequality remains alarmingly high. A more comprehensive and effective approach was not only undermined by hostile employers but also large enterprise unions, of which many continued to prioritise the interests of core workforces and, in fact, often did not allow irregular workers to join company unions. This resistance at the company level is of considerable importance in Korea's very fragmented industrial relations, pointing to the significance of institutional structures presenting barriers to social change. But, union leaders have recognised this weakness in the institutional set-up of Korean labour relations and have started to push for stronger industry unions, in addition to increasing pressure on enterprise unions to better represent irregular workers. Without any question, trade unions have been struggling to achieve greater inclusiveness and much work needs to be done, but this should not deflect from organised labour's capacity to respond strategically to socio-economic and socio-political challenges.

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